

# **NORTH DAKOTA RISK MANAGEMENT FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS. –**

To address the State's loss of sovereign immunity, the 1995 North Dakota Legislature created a new chapter of the Century Code, N.D.C.C. ch. 32-12.2. That Chapter established the Risk Management Fund (Fund) to administer claims against the State and state employees for personal injury, death, or property damage caused by the State or a state employee acting within the scope of the employee's employment. The Fund is directed by the Office of Management and Budget.

Each entity of the State is required to participate in the Fund. Contributions to the Fund are determined by the Director of OMB based on an actuarial review of the financial status of the Fund. This results in a fluctuation of contributions made to the Fund from one biennium to another.

The amount of money damages the Fund may pay is limited for State court actions to a total of \$250,000 per person and \$1,000,000 per occurrence. These liability caps may not be recognized in Federal Court actions or in actions filed in other states. The Fund's excess carrier provides coverage up to \$10,000,000 for those exposures not covered by the Tort Claims Act.

In addition to the excess coverage, the Fund purchases medical malpractice liability coverage. Due to the insurance market conditions, the cost of this coverage for fiscal year 2003 increased from an average cost of approximately \$925,000 per year to \$1,149,950.

Significant claims paid from the Fund are usually somewhat predictable and take a period of time to resolve. A person bringing a claim or lawsuit against the State or a state employee must give notice to the OMB Director within 180 days after the alleged injury is discovered or reasonably should have been discovered. If the claim is one for death, the notice must be provided within 1 year after the alleged injury resulting in the death. Total incurred (paid claims and claim expenses plus reserves) since the inception of the Fund (April 22, 1995) is \$4,647,591, an average of \$663,942 a year.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred. Those expenses have averaged \$283,371 per year since the Fund's inception.

The Fund's asset allocation will need to be reviewed at the end of the 2003-2005 biennium for appropriateness.

## **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

## **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 18% S&P 500 domestic stock index, 6% Russell 2000 domestic small cap index, 11% First Boston Convertible Securities index, 60% Lehman Government/Corporate domestic bond index, and 5% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

#### **5. POLICY AND GUIDELINES.**

The asset allocation of the North Dakota Risk Management Fund is established by the SIB, with input from the Office of Management and Budget. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	18%
Small Cap Domestic Equity	6%
Convertible Bonds	11%
Fixed Income	60%
Cash Equivalents	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

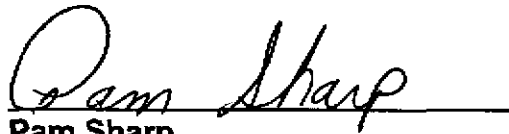
**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**OFFICE OF MANAGEMENT AND BUDGET**



**Pam Sharp**  
**Director of OMB**

**Date:** 9-12-03

**STATE INVESTMENT BOARD**



**Steve Cochran**  
**Executive Director/Investment Director, RIO**

**Date:** 9-19-03